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SUBJECT: TURKEY PICKS CALIK TO BUILD SAMSUN-CEYHAN OIL
PIPELINE

REF: ANKARA 544

Sensitive But Unclassified. Please handle accordingly.

11. (SBU) SUMMARY: The GOT has chosen local firm Calik Enerji to build the Samsun-Ceyhan Turkish Straits oil bypass, awarding it a six-month conditional license, still subject to approval by the President. Many of our contacts question whether Calik, whose Chairman Ahmet Calik is close to AKP politicians, has the capacity to bring shippers and financiers to the project. The GOT remains greatly concerned about the status quo of shippers using the Bosphorus as a "pipeline". End Summary.

And the Winner is...

12. (SBU) Turkey's government has chosen local firm Calik Enerji to build a 349 mile Samsun-Ceyhan pipeline to transport crude oil from the Black Sea to the Mediterranean, bypassing the Turkish Straits. All ministers signed the decree granting Calik Enerji, which has been cooperating with Italian ENI on project feasibility, six months to complete engineering and design studies and gain shipper throughput guarantees and financing. The President's approval is required for final authorization for the choice of the company for the pipeline, which targets shipment of 50-70 million tons p.a. (1.0-1.4 million bpd) with a construction cost of \$1.5 billion. Some of our contacts have questioned the non-competitive process which granted Calik the license. Energy Minister Guler has defended the process as consistent with the way other major projects, like BTC, have been handled, but Tthe President, courts, or others may yet voice objections.

Who is Ahmet Calik?

13. (SBU) The Calik Group is a mid-sized holding company in Turkey with whichthat has expanded from itsa core textile business core into energy, telecom, construction, and banking. In a spanking new office in Ankara, Calik's CFO Semih Ergur told us recently that the company is diversifying its interests, specifically targeting energy and telecom sectors. Calik won the privatization tender for the Bursa municipal natural gas distribution network and the coal mine/power facility in Cankiri. Allying itself with India Oil Co. - and also laying plans for a refinery at

Ceyhan - it was unsuccessful in gaining winning the tender for the TUPRAS state refinery. Teaming with Etilsat (UAE) Telecom, it also was an unsuccessful bidder in the Turk Telekom privatization. Calik is now partnered with Italian Banca IMI Sanpaolo competing for the Turkish Sekerbank privatization.

14. (SBU) Founder Ahmet Calik established his wealth in Turkmenistan, reputedly having arrived penniless in the early 1990's with an introduction from former President Turgut Ozal, who was pressing Turkey's links to "the Turkic republics", then newly liberated from the USSR. Calik quickly struck up a close and fruitful relationship with Turkmen President Niyazov, even gaining a Ministerial position and a Turkmen passport, and establishing himself as the key "go-to" conduit for foreign business in Turkmenistan. Calik built up a highly successful textile business, including EBRD financed facilities serving western companies. Later, he expanded into construction and energy/natural gas. Calik has built several natural gas-fired power plants and is operating some of them. Calik purchased 16 GE turbines for these power plants as one of the best clients of GE Power in the region.

15. (SBU) However, in recent years, As Calik's star is reportedly waning with Niyazov, the Calik and his group appears to have consciously decided to diversify back to Turkey. Ahmet Calik is thought to be very close to the AKP party in power in Turkey, although he also has close ties to Fetullah Gulen, an alternative Islamist figure currently living in the U.S. Many of our contacts believe his closeness to the AKP has helped him secure lucrative government contracts like the Bursa gas distribution network, . However, although he did not win the closely

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scrutinized privatizations managed by the Privatization Authority. Indeed, there had initially been conflict between ministers on awarding the exclusive pipeline deal to Calik, without an open and competitive tender process. (Note: Calik DG Erdal Celik told FCS that they follow the normal business practice of maintaining good relations with the party in power. End Note.)

16. (SBU) The GOT has long favored Samsun-Ceyhan as its Bosphorus bypass of choice, partly because it helps fuel their vision of Ceyhan as an energy hub. But, the GOT has long been unsure of how to move forward on Samsun-Ceyhan, other than beyond criticizing competing projects like Burgos-Alexandropolous and trans-Thrace for environmental reasons. The GOT began talking the Calik group up as a project champion over the last year. One local rep of a major U.S. engineering firm said Calik lacked the capacity and experience to build a major pipeline project. When Calik gained an agreement with ENI (builder of Blue Stream gas pipeline), the GOT decided to anoint the route and project, rather than The GOT did not choose to granting multiple conditional licenses and letting them compete for support from the marketplace. that would have let the commercial market choose the most viable project(s). Now, the GOT has chosen to anoint their route and champion.

Skeptics Abound - It ain't over `til the Fat Lady Sings

17. (SBU) At an April 28 Istanbul energy conference, Calik's Fatih Orcal (a former BOTAS official) touted their project's choice by the GOT Council of Ministers, claiming that Calik had been awarded an exclusive six-month right to promote the project and route. He echoed the GOT's criticism of the competing Burgos-Alexandropolous project as being inappropriate for environmental reasons. Noting their Calik's proposal for a petrochemical facility at Ceyhan, the Calik rep Orcal stated that the combination of

BTC, Iraq, and new Samsun-Ceyhan pipelines would bring over 4 million bpd to Ceyhan, transform it into a new Rotterdam energy hub and Platts would introduce "Ceyhan" based pricing.

Skeptics Abound - It ain't over `til the Fat Lady Sings

¶8. (SBU) TOTAL: At the same conference, French oil company Total reps presented their competing vision for Samsun-Ceyhan. Initially reported as collaborating with Calik-ENI, French oil company Total threw its hat into the ring with its own rival project for Samsun-Ceyhan and separate application for a license. The Calik rep told EnergyOff that their license gave them a six-month exclusive right to make the project work. At the same energy conference, Total's Turkey Director Antoine Elzir extolled the merits of their vision for Samsun-Ceyhan, claimed they had done a more comprehensive feasibility study for route and economics had been presented. He said that Total had presented its findings to the GOT and was he said Total is open to sharing its views and study with other companies and investors. A Total rep told us that it was unclear whether Calik had gained an exclusive right to the route, so it is moving ahead and believes its license request is being processed. Many observers believe the two companies may eventually join forces.

¶9. (SBU) CHEVRON: Meanwhile, On the margins of the conference, Chevron reps told EnergyOff that Chevron was facing pressure from Russia, linking approval of CPC expansion to participation in the Russian favored Bulgaria-Greece project. They were skeptical that Calik would be able to secure throughput guarantees and financing for Samsun-Ceyhan. Chevron continues to support a Bosphorus bypass, but stresses the importance of assuring the safety of tanker trade that remains in the Straits and says it is under pressure from Russia to support the competing Burgas-Alexandropolous route (linked to CPC pipeline expansion approval). The Chevron reps told EnergyOff that the Russian far east oil pipeline to Japan and China's burgeoning markets posed a long-term threat to the world's long haul tanker fleet (and would create greater Russian monopoly power if the fleet was moth-balled).

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¶10. (SBU) BOTAS: A senior BOTAS official privately criticized the GOT's choice of Calik rather than state-owned BOTAS, Although which is embroiled in a conflict with the BTC consortium on wrapping up the pipeline and assigning responsibility for cost overruns and delays on BTC construction. , BOTAS is very interested in building a potential Samsun-Ceyhan pipeline. Observers feel that Given BOTAS' weak leadership and vision is weak, the state and the company lacks the capacity and is not in a position to play an entrepreneurial role to develop the Samsun-Ceyhan project. The GOT is loathe to commit funds or guarantees to make its preferred project come to pass. Turkey has long sought to convince the Russians to participate in Samsun-Ceyhan, but the Russians have picked Burgas-Alexandropolous as a lower cost option.

Trans-Thrace Still Hopeful

¶11. (SBU) Also long in the bypass game, The local rep of U.S. citizen Howard Lowe's Thrace Development Company told EnergyOff that their project for a trans-Thrace project was still in the running, and their application for a license had not been formally rejected. While their project would be the shortest and likely cheapest, the GOT has rejected it for environmental and strategic reasons, citing the fragile environment of Saros Bay and the inappropriateness of more

tankers among the islands of the Aegean. The GOT applies the same argument against the Bulgaria-Greece route.

COMMENT

¶12. (SBU) COMMENT: The USG has long urged the GOT to grant conditional licenses to let the market pick the winner(s) for bypass project(s), but in the end the GOT fell back to its state planning reflex and anointed the route and champion. It is not clear if this will be successful approach (nor if it will stand up to criticism as another special energy deal, not subject to competitive tender). Given steady emotional comments from GOT officials that the status quo of the Sstraits as the main route for shipping oil from the Black Sea to the Mediterranean (i.e., treating the Straits as a pipeline) pipeline is unacceptable, the GOT will be apt to become increasingly frustrated and rancorous towards oil companies if their preferred Samsun-Ceyhan project does not get the through-put guarantees needed to make it viable.

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